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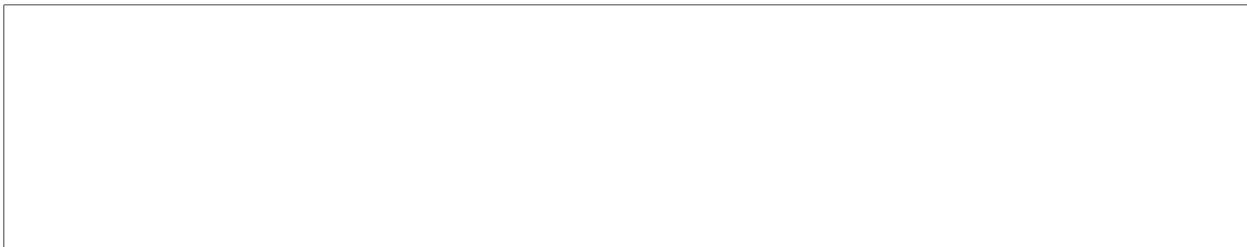
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SOVIET UNION**1. Comment on 1954 Soviet plan results:**

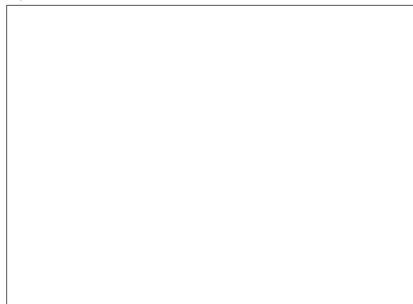
The Soviet annual plan report announced on 21 January reveals that the economy in 1954 grew a good deal more rapidly than in 1953--a year of transition under the new regime. Most major production goals of the Fifth Five-Year Plan, which terminates at the end of 1955, will almost certainly be met or exceeded. Much of this growth is still being achieved by larger additions to the industrial labor force than originally planned and by a considerable expansion of areas under cultivation. Both industrial labor productivity and crop yields per acre are well behind planned goals.

Industrial output was reported as 13 percent higher than in 1953, and 65 percent higher than in 1950. Since the Five-Year Plan called for a 70-percent increase over 1950 in industrial output, it is probable that this goal will be reached by the middle of this year. Significant rises in output of manufactured consumers' goods and in sale of goods through the state retail trade network made possible the fulfillment a year ahead of time of the original state trade turnover plan.

Total capital investments increased by 15 percent over the previous year, indicating a rapid recovery from the adjustments and shifts undertaken in 1953. Nevertheless, the physical plan for new construction and equipment was not fulfilled, and actual construction costs continue to exceed planned costs.

The announcement reiterates that the 1954 harvest of grain, the most important crop, was larger than in 1953 as a result of successes on newly cultivated land. The increase was probably small, however, since the report gives no specific figure and admits there was a severe drought in the Ukraine and Volga regions. 

2. British and French officials comment on Soviet leadership situation:



The British Foreign Office considers a contest for power inevitable in the Soviet system of government, but does not feel that Khrushchev's increasing eminence is necessarily evidence of a struggle for power. The Foreign Office does not exclude the possibility that there is already friction, and perhaps rivalry, between Khrushchev and Malenkov. It feels that relations are not as smooth as should be expected under a collective leadership working in unison with Malenkov "first among equals."

A somewhat similar view has been expressed by the leading Soviet specialist in the French Foreign Ministry, Laloy. He believes that Khrushchev's increasing arrogance may not connote solely a rise in importance, but also an inclination on Malenkov's part to give him "ample rope." Laloy is convinced that there are differences between these two Soviet leaders on internal policy, but feels that they do not necessarily extend to the foreign policy field.

Laloy believes that if French neutralist circles become convinced Malenkov represents "reasonableness" in foreign policy, they will clamor for a favorable Western response to Soviet overtures, arguing that this would inhibit a "hard" school of Soviet thinking from gaining control.

FAR EAST

3. Comment on major redeployment of Chinese Communist forces in Korea:



Chinese Communist forces in North Korea are undergoing a major redeployment, 

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[redacted] The movements involve at least two of the nine Chinese armies in Korea and two rear area logistical commands. They may presage further Chinese withdrawals from Korea, and replacement of Chinese by North Korean troops along the front line.

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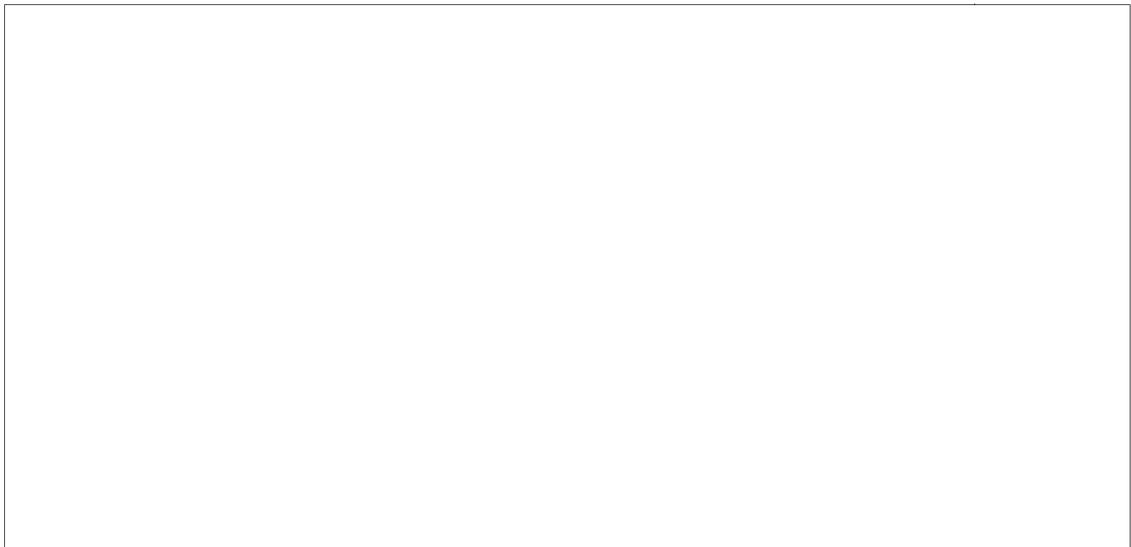
Replacement of Chinese with North Korean troops would be consistent with North Korea's current political offensive against South Korea. Pyongyang has made major propaganda efforts to convince the south that peaceful unification of Korea can be achieved by "Koreans themselves."

The North Korean army has the capability of assuming all front-line responsibilities, but will presumably continue to be bolstered by Chinese units in reserve and coastal security positions.

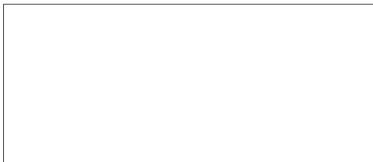
NEAR EAST - AFRICA

4.

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5. No death sentences expected in Cairo Zionist spy case:



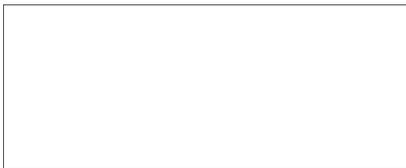
An official of the Egyptian Ministry of National Guidance is reported to have stated that those tried in the Zionist spy case will be given "moderate" sentences and none will be condemned to death. The verdicts, he said, have already been decided and will be announced "soon."

Comment: Israel has displayed unusual concern over the possible execution by Egypt of any of the 13 Jews on trial in Cairo on charges of espionage for Israel. 

 Israeli premier Sharett and Israeli Foreign Ministry officials have expressed doubts that their government could prevent "armed conflict" with Egypt if any of the accused were executed. 

WESTERN EUROPE

6. Comment on reshuffle of the French cabinet:



The French cabinet reshuffle of 20 January was apparently timed to meet a renewed National Assembly threat to the

[redacted] premier's North African policy. Mendes-France faces a crucial vote of confidence in connection with the North African debate, now scheduled to begin on 2 February.

The over-all caliber of the cabinet has been improved, but the six newly created posts are largely superfluous and do not strengthen Mendes-France's position in the National Assembly. In fact his position was weakened when the assembly on 21 January elected members of the opposition to important committee posts.

Marshal Juin reportedly played an active role in the reorganization of the top defense structure which was part of the cabinet reshuffle. Most of the new appointees to defense posts are strong proponents of the theme that all of French North Africa is an integral part of France.

LATE ITEM

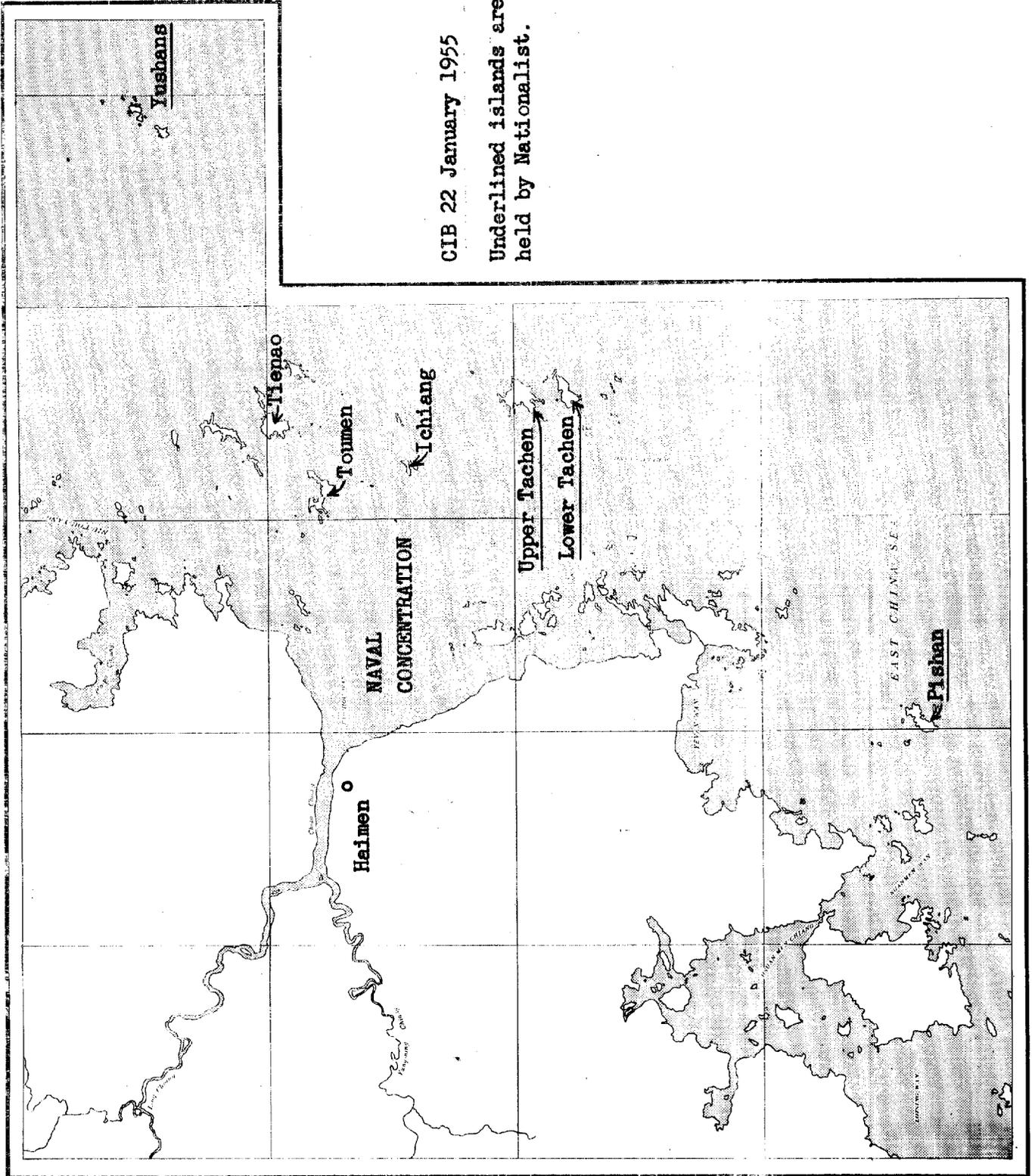
7. Chinese Communist invasion of Yushans may be imminent:

[redacted] Two Chinese Communist LST's, an LCI, three mine sweepers, a destroyer-type ship, and three unidentified "warships" were active in waters between Haimen and Ichiang Island on 20 January, according to Chinese Nationalist sources (see map, p. 8). Nine Communist motorized junks the same day approached within one mile of the Nationalist-held Yushan Islands, 35 miles northeast of the Tachens. The junks are believed to have been on a reconnaissance mission.

[redacted] similar Communist activity preceded the invasion of Ichiang on 18 January. The Nationalist Defense Ministry believes the present naval activity is a prelude to an assault on the Yushans.

Comment: Since the fall of Ichiang, it has been expected that the Chinese Communists would soon strike at other islands in the Tachen group, most likely at the

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Underlined islands are held by Nationalist.

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Yushans, which are held by 1,000 Nationalist guerrillas, or at Pishan, which is held by 1,800 guerrillas. It is possible, however, that the Communists will postpone further assaults pending clarification of reports that the Nationalists may evacuate all islands of the Tachen command.

The Communists remain capable of successfully invading any or all Nationalist-held offshore islands against Nationalist opposition alone, and in any event will probably maintain pressure on the Tachens with artillery, air, and naval action.